

STATEMENT
OF
THE HONORABLE JOHN GAUGHAN
MARITIME ADMINISTRATOR
OF THE
DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON MERCHANT MARINE
OF THE SENATE COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION
ON THE
AUTHORIZATION REQUEST
OF THE MARITIME ADMINISTRATION
FOR FISCAL YEARS 1987 AND 1988

MAY 16, 1986

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MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE ON
MERCHANT MARINE. MY NAME IS JOHN GAUGHAN, AND I AM THE
MARITIME ADMINISTRATOR OF THE DEPARTMENT OF TRANSPORTATION.
IT IS A PLEASURE TO APPEAR THIS MORNING TO PRESENT THE VIEWS
OF THE ADMINISTRATION WITH RESPECT TO THE AUTHORIZATION
REQUEST OF THE MARITIME ADMINISTRATION FOR FISCAL YEARS 1987
AND 1988.

MR. CHAIRMAN, THE ADMINISTRATION CONTINUES TO SUPPORT
THOSE ACTIONS NECESSARY TO ENSURE THE COMPETITIVE U.S.-FLAG
MERCHANT MARINE THAT IS REQUIRED BY THE NATIONAL INTERESTS
OF THE UNITED STATES. AS WITH ALL OTHER PROGRAMS RECEIVING
FEDERAL SUPPORT, IT HAS BEEN NECESSARY TO BALANCE THE VALUE
OF ASSISTANCE PROVIDED THE U.S.-FLAG MERCHANT MARINE AGAINST
THE NEED TO REDUCE THE FEDERAL DEFICIT. THIS HAS RESULTED
IN SOME VERY DIFFICULT DECISIONS, BUT ONES THAT WE BELIEVE
ARE BASED ON SOLID POLICY GROUNDS. THE ADMINISTRATION'S

AUTHORIZATION REQUEST FOR THE MARITIME ADMINISTRATION FOR FISCAL YEARS 1987 AND 1988 GIVES RECOGNITION TO THE REQUIREMENTS OF THE GRAMM-RUDMAN-HOLLINGS LAW AND THE ANNUAL REDUCTIONS WHICH WILL BE NECESSARY IN ORDER TO ACHIEVE A BALANCED BUDGET BY 1991.

MR. CHAIRMAN, BEFORE I ADDRESS THE VARIOUS ELEMENTS OF OUR AUTHORIZATION REQUEST, MENTION SHOULD BE MADE OF FOUR LEGISLATIVE PROPOSALS THE ADMINISTRATION HAS MADE IN ORDER TO PROMOTE THE U.S.-FLAG MERCHANT MARINE.

THE ADMINISTRATION IS AGAIN PURSUING LEGISLATION THAT WILL AUTHORIZE SHIP OPERATORS TO BUILD OR ACQUIRE VESSELS OVERSEAS WITHOUT LOSS OF ELIGIBILITY FOR OPERATING-DIFFERENTIAL SUBSIDY (ODS). IF WE ARE TO HAVE A STRONG MERCHANT FLEET AVAILABLE IN TIME OF NATIONAL EMERGENCY THIS IS A CRITICAL REQUIREMENT. THIS LEGISLATION HAS BEEN INTRODUCED IN THE SENATE AS S. 1481.

THE SECOND LEGISLATIVE PROPOSAL I WOULD LIKE TO MENTION IS THE LEGISLATION THAT WILL GIVE IMMEDIATE ELIGIBILITY TO VESSELS NOT BUILT IN THE UNITED STATES, BUT BROUGHT UNDER U.S.-FLAG, TO CARRY CARGOES FOR THE U.S. GOVERNMENT. THIS LEGISLATION HAS BEEN INTRODUCED IN THE SENATE AS S. 1482, AND WE LOOK FORWARD TO HEARINGS ON BOTH BILLS.

THE THIRD LEGISLATIVE PROPOSAL IS THE DRAFT LEGISLATION TO ELIMINATE DOUBLE SUBSIDY BY PROVIDING FOR A PROPORTIONAL REPAYMENT OF ODS WHERE MILITARY CARGO IS TRANSPORTED, AND WHERE OTHER PREFERENCE CARGOES ARE TRANSPORTED AT ABOVE WORLD FREIGHT RATES. U.S.-FLAG OPERATORS WHO ACCEPT THIS

REDUCTION IN ODS WOULD BE AFFORDED A MORE FLEXIBLE ALTERNATIVE TO THE FORMAL HEARING PROCEDURE UNDER SECTION 605(C) OF THE MERCHANT MARINE ACT, 1936, FOR THE OPERATION OF SUBSIDIZED VESSELS ON ESSENTIAL TRADE ROUTES. THIS LEGISLATION PROPOSED BY THE ADMINISTRATION HAS NOT YET BEEN INTRODUCED IN THE CONGRESS.

ANOTHER LEGISLATIVE PROPOSAL THE ADMINISTRATION STRONGLY SUPPORTS WOULD EXTEND THE PARTIAL IMMUNITY FROM THE AUTOMATIC STAY PROVISIONS OF THE BANKRUPTCY CODE TO CREDITORS WITH PREFERRED SHIP MORTGAGES, AND ENABLE THE SECRETARY OF TRANSPORTATION TO FORECLOSE MORE EASILY ON THE PREFERRED MORTGAGE OF A TITLE XI VESSEL IF THE OWNER DEFAULTS ON A GUARANTEED LOAN. THIS LEGISLATION WAS INTRODUCED IN THE SENATE AS S. 1993. WE APPRECIATE THE HEARING HELD BY THE SUBCOMMITTEE ON S. 1993 AND S. 1992, A COMPANION MEASURE, AND LOOK FORWARD TO FAVORABLE COMMITTEE ACTION ON THESE BILLS IN THE NEAR FUTURE.

WE BELIEVE THAT THESE LEGISLATIVE PROPOSALS ARE CRUCIAL TO THE CONTINUED WELL-BEING OF THE U.S.-FLAG MERCHANT MARINE AND A STRONG NATIONAL DEFENSE POSTURE AS WELL AS SOUND FISCAL POLICY.

TURNING NOW TO THE SPECIFICS OF THE AUTHORIZATION REQUEST, THE ADMINISTRATION IS REQUESTING A TOTAL OF \$388,193,000 FOR THE MARITIME ADMINISTRATION FOR FISCAL YEAR 1987: \$320 MILLION FOR ODS; \$5.5 MILLION FOR RESEARCH AND DEVELOPMENT ACTIVITIES; AND \$62,693,000 FOR OPERATIONS AND TRAINING ACTIVITIES.

OPERATING-DIFFERENTIAL SUBSIDY.

THE ADMINISTRATION WILL CONTINUE TO HONOR EXISTING ODS CONTRACTS. \$320 MILLION IS REQUESTED FOR THIS PURPOSE IN FISCAL YEAR 1987. THIS IS \$20.5 MILLION MORE THAN THE 1986 APPROPRIATION. WE ESTIMATE THAT THIS AMOUNT WILL BE SUFFICIENT TO PROVIDE CONTINUING SUPPORT FOR 73 LINER AND 17 BULK VESSELS UNDER EXISTING CONTRACTS.

RESEARCH & DEVELOPMENT.

THE RESEARCH AND DEVELOPMENT (R&D) REQUEST IS FOR \$5.5 MILLION, A DECREASE OF \$4.4 MILLION FROM THE 1986 APPROPRIATION. IT IS ANTICIPATED THAT 1987 WOULD BE A TRANSITION PERIOD TO NO FEDERAL FUNDING FOR THESE ACTIVITIES. THE ADMINISTRATION PROPOSES TO RELY MORE HEAVILY ON PRIVATE SECTOR FUNDING BEGINNING IN 1987. THIS WILL ENTAIL "PRIVATIZATION" OF THE COMPUTER AIDED OPERATIONS RESEARCH FACILITY LOCATED AT KINGS POINT, NEW YORK.

OPERATIONS AND TRAINING

\$62,693,000 IS REQUESTED TO BE AUTHORIZED. OPERATIONS AND TRAINING ACTIVITIES ARE DIVIDED INTO MARITIME EDUCATION AND TRAINING EXPENSES, NATIONAL SECURITY SUPPORT CAPABILITIES, AND OTHER OPERATIONS AND TRAINING PROGRAMS.

MARITIME EDUCATION AND TRAINING PROVIDE FOR THE OPERATION OF THE U.S. MERCHANT MARINE ACADEMY, ASSISTANCE TO THE SIX STATE MARITIME ACADEMIES, AND ADDITIONAL TRAINING FOR ELIGIBLE MERCHANT MARINE PERSONNEL.

THE \$20,278,000 REQUESTED FOR THE CONTINUED OPERATION OF THE MERCHANT MARINE ACADEMY WILL COVER COST INCREASES IN ONGOING EXPENSES AND \$300,000 FOR DESIGN WORK TO REPLACE OR REBUILD THE INEFFICIENT HEATING PLANT WHICH IS OVER 40 YEARS OLD.

THE \$1,035,000 FOR FINANCIAL ASSISTANCE TO STATE MARITIME ACADEMIES IS LIMITED TO PROVIDING STUDENT INCENTIVE PAYMENTS TO CADETS CURRENTLY RECEIVING SUCH PAYMENTS. DUE TO THE CONTINUING OVERSUPPLY OF MERCHANT MARINE OFFICERS AND THE URGENT NEED TO REDUCE FEDERAL SPENDING, FUNDS FOR FEDERAL SUPPORT IN THE FORM OF DIRECT PAYMENTS AND MAINTENANCE OF SCHOOLSHIPS HAVE NOT BEEN REQUESTED. THE MARITIME ADMINISTRATION WILL WORK WITH ANY OF THE SCHOOLS THAT ARE INTERESTED IN CONTINUING TO USE THE SHIPS, BUT THE SCHOOLS WILL BE RESPONSIBLE FOR THE COST OF MAINTAINING AND OPERATING THE VESSELS. EVEN WITH THE REDUCED FEDERAL SUPPORT THERE WILL BE AN ADEQUATE OFFICER WORKFORCE AVAILABLE TO MAN U.S.-FLAG MERCHANT SHIPS.

THE \$1,135,000 FOR EXPENSES NECESSARY FOR ADDITIONAL TRAINING WILL PROVIDE FOR THE COSTS OF ADMINISTRATION OF THE MARITIME EDUCATION AND TRAINING ACTIVITIES AT THE HEADQUARTERS LEVEL, TRAINING IN SHIPBOARD FIREFIGHTING, AND FOR TRAINING COURSES IN THE OPERATION AND MAINTENANCE OF MEDIUM AND SLOW SPEED MARINE MAIN PROPULSION DIESEL ENGINES. THE INDUSTRY ROLE IN MARITIME TRAINING CONTINUES TO BE AN ESSENTIAL PART OF OVERALL MARITIME TRAINING. WE WILL CONTINUE TO COOPERATE WITH SUCH EFFORTS WITH RESPECT TO

TRAINING THAT HAS NATIONAL DEFENSE OR OTHER NATIONAL INTEREST UTILITY AND WILL CONTINUE OUR OWN TRAINING ASSISTANCE PROGRAM.

FOR THE NATIONAL SECURITY SUPPORT ACCOUNT, \$13,421,000 IS REQUESTED. THAT ACCOUNT FUNDS EXPENSES ASSOCIATED WITH THE NATIONAL DEFENSE RESERVE FLEET (NDRF) AND EMERGENCY PLANNING/OPERATIONS PROGRAMS. EACH PROGRAM IS DIRECTLY SUPPORTIVE OF THE MARITIME ADMINISTRATION'S NATIONAL SECURITY RESPONSIBILITIES. \$11,903,000 IS REQUESTED FOR THE NDRF PROGRAM WHICH PROVIDES FOR THE PRESERVATION, MAINTENANCE AND SECURITY OF SHIPS IN THE NDRF, AND FOR THE ADMINISTRATION OF THE SHIP TRANSFER AND SHIP DISPOSAL PROGRAMS. THE 1987 ESTIMATE INCLUDES \$3,855,000 FOR INITIATION OF A MULTIYEAR PROGRAM FOR CAPITAL INVESTMENTS, INCLUDING DREDGING, FACILITY ALTERATIONS AND MAINTENANCE AND REPLACEMENT OF SUPPORT CRAFT. THIS \$3,855,000 IS A HIGH PRIORITY ITEM NEEDED FOR THE MARITIME ADMINISTRATION TO CARRY OUT ITS NATIONAL SECURITY ROLE VIS-A-VIS THE NDRF, AND, FOR THAT REASON, WE ARE PARTICULARLY CONCERNED THAT IT IS OMITTED IN THE HOUSE BILL, H.R. 4175. \$1,518,000 IS REQUESTED FOR THE EMERGENCY PLANNING/OPERATIONS ACTIVITY OF THE MARITIME ADMINISTRATION.

FOR OTHER OPERATIONS AND TRAINING, \$26,824,000 IS REQUESTED TO PROVIDE FOR THE DIRECTION AND ADMINISTRATION OF OTHER AGENCY PROGRAMS AND FOR PROGRAM COSTS NOT SEPARATELY AUTHORIZED. THE REQUEST REFLECTS A DECREASE OF 37 PERMANENT POSITIONS AND \$1,740,000.

FINALLY, MR. CHAIRMAN, CONSISTENT WITH THE PRESIDENT'S BUDGET SUBMISSION, THE ADMINISTRATION'S FISCAL YEAR 1987 BUDGET REQUEST PROPOSES NO NEW TITLE XI LOAN GUARANTEE COMMITMENTS IN 1987 AND BEYOND.

I AM READY TO WORK WITH THE COMMITTEE REGARDING ANY ISSUES WHICH MAY ARISE AS A RESULT OF THE PRESIDENT'S BUDGET. ALTHOUGH MANY MAY BELIEVE THAT THE REDUCTIONS AND ACTIONS WE ARE PROPOSING ARE VERY PAINFUL, WE THINK THEY ARE NECESSARY IN THE CONTEXT OF THE FEDERAL BUDGET PROBLEM AND ARE GROUNDED IN THE SOLID POLICY FRAMEWORK REFLECTED IN OUR LEGISLATIVE PROPOSALS. I BELIEVE THE PROPOSED BUDGET PROVIDES FOR THE CONTINUED FOSTERING OF A STRONG AND COMPETITIVE U.S.-FLAG MERCHANT MARINE.

MR. CHAIRMAN, THAT CONCLUDES MY PREPARED STATEMENT. WE HAVE PROVIDED OUR VIEWS ON H.R. 4175, THE MARITIME ADMINISTRATION AUTHORIZATION BILL REPORTED BY THE HOUSE MERCHANT MARINE AND FISHERIES COMMITTEE, UNDER SEPARATE COVER. I WILL BE PLEASED TO ANSWER ANY QUESTIONS THAT YOU OR THE MEMBERS OF THE SUBCOMMITTEE MAY HAVE. THANK YOU.